

December 2005

Innovators

Innovators: Spurred to action

By Sean Kelley

Ask Terry Klenske what kind of company Dalton Trucking is, and he'll likely describe it as a throwback to the carriers of the 1960s and 1970s. For example, the company's 200 trucks are largely older and are kept running in a fully staffed shop. The shop does everything from overhauling engines to rebuilding transmissions to fabricating parts for older trucks. Even the carrier's regular hauls – construction materials, equipment and bulk products like cement and sand – are standard fare.

"We have two basic businesses – we haul bulk materials, and we're one of the largest low-bed carriers in the state," Klenske says. "That's what people think of when you mention Dalton Trucking."

On a recent Wednesday at the company's headquarters in Fontana, Calif., workers were converting a sleeper into a daycab on the company's back lot, repairing dump trailers in its aluminum shop and resurrecting a wrecked power unit in another building. Klenske, whose office doesn't even have a computer, talks about finally hiring a financial director for the company. "We've never really had one."

But the seemingly unsophisticated atmosphere at the carrier is misleading: Dalton Trucking is at the forefront of intermodal shipping in a way that few carriers in the country are.

In 2000, Klenske decided he needed to diversify his business. Trucking rates were depressed, and there was overcapacity. The company's core hauls weren't as profitable. "Trucking didn't look all that attractive," Klenske says. "I needed a hedge against the other things we were doing." Due to Dalton Trucking's location, in North America's busiest freight corridor, intermodal was an obvious opportunity – but not in the usual way.

The carrier approached the Union Pacific railroad about building a rail spur onto 12 acres on the UP line near Interstate 10 in Fontana. The facility created the only public warehouse at UP's West Colton rail yard, an enormous intermodal stop in the heart of California's freight-rich Inland Empire. The area has one of the largest concentrations of distribution centers in North America and is a stopping point for much of the freight headed into Los Angeles.

Dalton Trucking's rail-to-truck transloading facility was unique when it was built and looks to remain so for the foreseeable future. "The Union Pacific has basically embargoed any new construction from here west to L.A.," Klenske says. "The track is so busy that no new construction is possible without interrupting existing freight."

Direct access

The facility is substantial, capable of handling up to 38 rail cars at one time. Since it opened in the fall of 2002, Dalton's Logistical Services division has been able to offer its customers direct access to rail and proximity to three of California's primary truck routes: I-10, I-15 and I-5.

In addition to transloading services, the company offers indoor and outdoor storage. The facility, which is paved and includes a 30,000-square-foot warehouse, receives rail cars three times a week. Most of the rail cars bring in lumber and rebar to support the Inland Empire's construction boom. But paper and even canned goods come into the facility, and some products are loaded for export, says Paul Hoffman, operations manager at the facility.

"Our biggest challenge is getting everything unloaded and turned around," Hoffman says. "We're getting more and more business each week. A few years ago, if we got 20 cars on a switch, we thought we were doing great. Now, we do that every switch."

Flatbed and box rail cars must be unloaded in 36 hours and readied for pickup by the railroad. But managing that relationship with the railroad isn't always easy. The railroad can charge them detention if the cars aren't unloaded. The Union Pacific often will try to charge Dalton Trucking even when the company fulfills its obligations – so the company keeps an employee on staff just to keep track of that relationship.

There are other places in the Inland Empire where shippers can have their freight transloaded, but none are owned by a trucking company. And few, if any, are as nice as Dalton Trucking's facility. Most are like a public facility a few miles up the road. At that facility, rail cars move down another spur to a dusty industrial site where beat-up rigs wait to be loaded. The facility, which is run by the railroad, is not secured and has no infrastructure improvements like pavement. In fact, the road running parallel to the spur hasn't been repaired and is pocked with holes, ruts and broken asphalt.

While such facilities are adequate for some, those shippers must pay a carrier to move a load from the railhead to a warehouse, lot or distribution center. Several new warehouses are being built next to Klenske's operation, but he questions the wisdom of those



Terry Klenske is a traditional trucking company owner with a non-traditional diversification: An intermodal transloading facility.

investments since none have rail access: A shipper using those facilities still will have to move its freight from the railroad to the warehouse. Today, Dalton has an edge over both warehousing facilities and other carriers: It can give its customers transloading and warehousing services, and it also can offer trucking services.

Revenue and investment

Klenske's hedge has worked out in two ways. The transloading facility now represents 7 to 8 percent of the company's revenue, and Klenske expects that to grow to 15 percent in the next few years. The company's \$4.5 million investment is also now worth more than \$10 million, giving Dalton Trucking a substantial piece of real estate among its assets.

There are other smaller innovations around the facility as well. The company designed five portable docks, which can be moved into position by forklifts wherever a boxcar needs to be unloaded. Dalton's mechanics have welded together various fittings for its industrial forklifts, including devices to push railcars and lift heavy rail wheels that are shipped in to be repaired by a local company.

Partnering with a railroad may seem like blasphemy in some trucking quarters, but Klenske says it makes a lot of sense in an area of the country where so much freight is intermodal. "You can't believe the size of the ships coming into the port of Long Beach and Los Angeles now," Klenske says. "Today's ships have at least 6,500 containers. But the new ships will hold 8,000 containers, and others are being designed that will hold 15,000. There's no place to put those containers. Seventy-five percent of the U.S. imported freight comes into these facilities."

Klenske knows that means there is plenty of future growth for Dalton Trucking's rail facility.